

Digest of a Performance Audit of the Utah Technology Finance Corporation

Questions regarding mission compliance and the adequacy of existing controls resulted in the Legislature requesting this audit of the Utah Technology Finance Corporation (UTFC). UTFC, started in 1983 by the Utah Legislature, has broadly defined goals in the **Utah Code**. The organization has struggled to identify its purpose and the means to measure its effectiveness within the broadly written definition of the **Utah Code**. We believe this struggle stems from the mission defined by the Legislature which results in conflicting goals for UTFC---to be self-sufficient and to support high-risk, start-up businesses. UTFC's has attempted to address both goals. However, in spite of these attempts, UTFC remains dependent on continued state financial support. Further, a broadening of their mission interpretation may be pulling UTFC away from high-risk, start-up companies. Contributing to UTFC's mission problem are UTFC's problems with insufficient oversight by its board and non-compliance with some internal administrative controls.

UTFC's Effectiveness May Be Declining. The effectiveness of the Utah Technology Finance Corporation (UTFC) may be declining along certain measures related to the original legislative purpose. In our 1993 audit report on UTFC, we expressed concern that UTFC was beginning to take an approach that was moving it away from its legislative purpose of providing early-stage capital to high technology companies. We believe UTFC may be continuing to lose sight of these primary aspects of its original legislative mission. We continue to be concerned with UTFC's movement away from early-stage business aid and add to that concern the possibility that UTFC is moving away from funding high technology companies. This movement away from primary aspects of UTFC's legislative mission means that UTFC's current practices may not be addressing UTFC's goals as originally set and understood by the Legislature. Finally, UTFC's cost efficiency appears to be declining. As a result, the cost per loan in fiscal year 1997 was \$26,590 while in fiscal year 1994 the cost per loan was \$14,001.

Some Controls Were Not Working Properly at UTFC. UTFC's administrative control systems were not functioning adequately and resulted in approximately \$106,000 of additional agency costs between fiscal years 1996 and 1997. UTFC's Executive Committee, which is charged with approving all staff compensation and benefits, may not have been aware of specific employee benefits at UTFC. First, we could not find nor could UTFC provide documentation authorizing certain staff benefits, in particular those offered to the former Executive Director. Second, some members of the Executive Committee do not remember discussing and approving these benefits. As a result, it is possible that UTFC's former Executive Director and some staff received approximately \$90,000 of benefits which were not approved by the committee. The Executive Committee was also unaware that some internal policies and procedures had been ignored

by the former Executive Director and had cost the organization approximately \$16,400. Finally, some administrative processes, such as the employee hiring process, were poorly documented. Upon learning of these weaknesses, UTFC's acting Executive Director and the board took immediate action to rectify the problems.

Allegations of Inappropriate UTFC Activities Have Some Merit. A number of allegations of inappropriate activities have been made concerning UTFC and its former executive director. For example it was alleged that the former Executive Director performed private consulting work using UTFC time and assets and that UTFC payed for a friend of the former Executive Director to attend conferences. In our opinion, many of the allegations have some merit and stem from a lapse in controls, either from the organization's policies and procedures or from oversight by the organization's board. We believe that UTFC should work to tighten up its management controls relating to private consulting, travel expenditures, conflicts of interest, board member assets and use of corporate credit cards.